

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 05382 01 OF 02 102007Z  
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 /093 W  
-----076641 102100Z /75  
R 101650Z JUL 78  
FM AMEMBASSY LA PAZ  
TO SECSTATE WASHDC 1539

LIMITED OFFICIAL USE SECTION 1 OF 2 LA PAZ 5382

E.O. 11652: N/A  
TAGS: EGEN, EFIN, BL  
SUBJECT: BOLIVIA'S BALANCE OF PAYMENTS OUTLOOK AT MID-YEAR

1. THIS CABLE SUMMARIZES A MORE DETAILED REPORT BEING SENT BY AIRGRAM ON BOLIVIA'S BALANCE OF PAYMENTS SITUATION AS IT APPEARS AT MIDYEAR. THIS ANALYSIS UPDATES PREVIOUS REPORTS CONTAINED IN LA PAZ 1101 AND LA PAZ 2763.

2. BOLIVIA'S EXTERNAL SECTOR SO FAR IN 1978 HAS BEEN CHARACTERIZED BY: 1) MODERATELY STRONG DEMAND FOR IMPORTS; 2) DECLINING EXPORTS DUE TO DECREASED TIN AND PETROLEUM PRODUCTION; 3) TRADITIONAL HIGH SERVICES ACCOUNT BECAUSE OF BOLIVIA'S LANDLOCKED STATUS AND INCREASED THIS YEAR BECAUSE OF PRODUCTION SHARING PAYMENTS TO NEWLY PRODUCING US OIL COMPANIES; 4) CONTINUED MODERATELY HEAVY SHORT TERM CAPITAL FLIGHT DUE TO POLITICAL UNCERTAINTY; 5) A SURPLUS ON THE LONG TERM CAPITAL ACCOUNT BASED ON FOREIGN BORROWING BUT INCREASINGLY OFFSET BY INTEREST AND AMORTIZATION PAYMENTS; 6) AN ALARMING INCREASE OF COMMERCIAL BANK FOREIGN LIABILITIES. THE BOLIVIA ECONOMIC SITUATION IS DIFFICULT BUT NOT YET DESPERATE, HOWEVER, ECONOMIC POLICY OPTIONS FOR GOB HAVE BEEN LIMITED BY THE DEMOCRATIZATION PROCESS. THE PRESENT GOB HAS AVOIDED TAKING SOME ECONOMIC MEASURES OUT OF CONCERN OFR  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 05382 01 OF 02 102007Z

THEIR IMPACT ON THE PRE-ELECTORAL PROCESS. THE PRESENT GOVERNMENT HAS SO LITTLE TIME LEFT THAT IT IS ESSENTIALLY IN A HOLDING PATTERN. SOME FINANCIAL MEASURES MAY BE TAKEN BY THE PRESENT GOB BEFORE AUGUST 6, BUT EVEN THIS IS DOUBTFUL.

3. THE CURRENT ACCOUNT IS CHARACTERIZED BY IMPORTS GROWING AT A MODERATELY HIGH RATE OF 12 PERCENT WHILE EXPORTS ARE LESS

THAN PREVIOUS PROJECTIONS DUE TO LOWER PETROLEUM AND TIN PRODUCTION AND TUGSTEN PRICES. THE EXPORT PICTURE HAS BEEN SAVED FROM BEING MORE BLEAK BY VERY HIGH TIN PRICES. THE SHORT TERM CAPITAL ACCOUNT HAS EXPERIENCED A LOW \$14 MILLION OUTFLOW IN THE FIRST QUARTER BUT WHAT THE YEAR END SHORT TERM CAPITAL POSITION WILL BE DEPNDNS IN LARGE PART ON THE UNFOLDING OF POLITICAL EVENTS IN THE SECOND HALF OF 1978. THE LONG TERM CAPITAL ACCOUNT IS DOWN BY \$30 MILLION ESSENTIALLY BECAUSE THE GOB IS RESTRICTING BORROWING BY COMIBOL AND YPFB. TWENTY MILLION DOLLARS OF IMF TRUST FUND FINANCING HAS BEEN ADDED TO THE EMBASSY ESTIMATE. THE LEVEL OF INTERNATIONAL RESERVES AS OF THE END OF JUNE IS \$196 MILLION, NOT INCLUDING RECEIPTS FROM THE IMF TRUST FUND. THE CENTRAL BANK BELIEVES THAT THE BALANCE OF PAYMENTS NET DEFICIT FOR 1978 WILL BE \$75 MILLION BUT THE EMBASSY ESTIMATE IS \$93 TO \$213 MILLION WITH THE MOST LIKELY OUTCOME BEING TOWARD THE LOWER END OF THAT SCALE. OF SPECIAL CONCERN IS THE LARGE DROP IN NET RESERVES OF THE CONSOLIDATED BANKING SYSTEM WHICH DROPPED 25 PERCENT TO \$110 MILLION FROM DECEMBER 1977 TO MAY 1978. FOREIGN BORROWINGS BY LOCAL BANKS HAVE CAUSED COMMERCIAL BANK INTERNATIONAL RESERVES TO DETERIORATE FROM MINUS \$57.6 MILLION AT THE END OF 1977 TO MINUS \$93 MILLION ON JUNE 30, 1978. THIS LARGE POTENTIAL CLAIM ON THE SYSTEM'S RESERVES COULD MEAN THAT RESERVES OF THE CONSOLIDATED SYSTEM WILL BE CLOSE TO ZERO BY YEAR END. DURING THE FIRST SIX MONTHS OF 1978 THE MONEY SUPPLY, M1, DECLINED BY 4.3 PERCENT AS A RESULT OF DECLINING INTERNATIONAL RESERVES (\$45 MILLION) LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 05382 01 OF 02 102007Z

AND A POLICY OF THE CENTRAL BANK TO LIMIT LIQUIDITY.

4. THUS, BOLIVIA'S BALANCE OF PAYMENTS PROBLEMS APPEAR TO BE AS SERIOUS AS PREVIOUSLY ESTIMATE (SEE REFTELS). IT APPEARS THE NEW GOVERNMENT COULD GET THROUGH 1978 WITHOUT TAKING TOUGH AUSTERITY MEASURES BUT AT LEAST SOME MEASURES BEYOND THOSE ALREADY TAKEN MUST BE DECIDED UPON IN ORDER TO COMPLY WITH PROMISES MADE TO THE IMF AND TO END THE YEAR WITH AN ACCEPTABLE LEVEL OF RESERVES. IN OUR VIEW IT WOULD BE A MISTAKE FOR THE NEW GOVERNMENT TO AVOID TAKING AUSTERITY MEASURES SUCH AS INCREASING RESERVE REQUIREMENTS, TIGHTENING CREDIT, INCREASING DOMESTIC GASOLINE AND KEROSENE PRICES, INCREASING INTEREST RATES, IMPOSING PRIVATE AND PUBLIC DEBT CEILINGS, REDUCING OR LIMITING COMMERCIAL BANK FOREIGN SHORT TERM LIABILITIES AND FURTHER CUTTING DEFICITS OF STATE ENTITIES. MEASURES ALREADY TAKEN WHICH HAVE BEEN PARTLY SUCCESSFUL IN BOLSTERING THE BALANCE OF PAYMENTS AND SLOWING THE RATE OF INCREASE IN DOMESTIC INFLATION INCLUDE A 20 PERCENT CUT IN THE BUDGETS OF THE STATE CORPORATIONS, RESTRICTIONS IN BANK CREDIT AND INCREASES IN SOME MINOR TAXES. AT THIS POINT NEITHER THE GOB NOR THE IMF (NOR THE EMBASSY) BELIEVE THAT A DEVALUATION IS REQUIRED DURING THE NEXT SIX TO NINE MONTHS. HOWEVER, THE NEW GOVERNMENT

COULD AVOID TAKING NECESSARY AUSTERITY MEASURES BY INCURRING MORE DEBT FROM COMMERCIAL SOURCES, COMBINED WITH DRAWING DOWN RESERVES TO MEET FOREIGN EXCHANGE OBLIGATIONS. SEEKING IMF ASSISTANCE AND TAKING AUSTERITY MEASURES IS THE PREFERRED COURSE BECAUSE THE OPPOSITE WILL ONLY POSTPONE THE INEVITABLE. POSTPONEMENT WOULD ALSO MEAN, POLITICALLY, THAT MORE SEVERE ECONOMIC PROBLEMS LATER WOULD BE BLAMED ON THE ELECTED GOVERNMENT RATHER THAN THE OUTGOING BANZER GOVERNMENT.

5. THE NEW GOVERNMENT WILL HAVE TO DEAL WITH SOME TOUGH ECONOMIC PROBLEMS AND THEIR POLITICAL IMPLICATIONS AFTER AUGUST.

6. THE NEW GOB WILL BE FACED WITH PUTTING TOGETHER A NEW LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LA PAZ 05382 01 OF 02 102007Z

ECONOMIC PACKAGE TO DEAL WITH SHORT TERM PROBLEMS AND FORMULATE A STRATEGY TO DEAL WITH LONGER TERM ECONOMIC PROBLEMS. SOME DIFFICULT ECONOMIC DECISIONS WILL HAVE TO BE TAKEN, SHORT OF DEVALUATION, TO DEAL WITH THE INHERITED ECONOMIC PROBLEMS AS OUTLINED ABOVE. THE IMF HAS PROVIDED (JUNE 30) ABOUT \$49 MILLION IN COMPENSATORY, TRUST FUND AND GOLD TRANCHE FINANCING. GOLD TRANCHE AND COMPENSATORY FINANCING WILL INCREASE LIQUIDITY BUT NOT RESERVES. A REGULAR IMF MISSION WILL VISIT BOLIVIA FOR AN ANNUAL COUNTRY REVIEW PROBABLY IN MID-OCTOBER. IF IT APPEARS THAT STANDBY FINANCING IS NEEDED THE NEW GOB CAN DISCUSS IT AT THAT TIME.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 05382 02 OF 02 101950Z  
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 /093 W

-----076397 102102Z /75

R 101650Z JUL 78  
FM AMEMBASSY LA PAZ  
TO SECSTATE WASHDC 1540

LIMITED OFFICIAL USE SECTION 2 OF 2 LA PAZ 5382

7. BOLIVIA'S BALANCE OF PAYMENTS  
(\$US MILLION)

	1977	1978	1978	1978
	FINAL	REVISED	EMBASSY	EMBASSY WORST
	GOB TARGET	ESTIMATE	CASE	ESTIMATE
CURRENT ACCT.				
1. EXPORTS (FOB)	649	657	627	609
2. IMPORTS (FOB)	(644)	(708)	(727)	(747)
3. SERVICES	(188.4)	(259)	(253)	(255)
4. TRANSFERS	15	20	20	20
5. BALANCE	(168.4)	(290)	(333)	(375)
CAPITAL ACCT.				
1. LONG TERM				
CAPITAL NET	338	298	330	335
2. SHORT TERM				
CAPITAL NET	(123)	( 83)	( 90)	(175)
3. BALANCE	214	215	240	160
ERRORS & OMISSIONS ( 38.9)	--	--	--	--
NET BALANCE	7.7	( 75)	( 93)	(213)

NOTE: THE BASIC DIFFERENCE IN THE EMBASSY WORST CASE ESTIMATE IS  
A LOWER VOLUME OF TIN PRODUCTION, LARGER SHORT TERM CAPITAL  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 05382 02 OF 02 101950Z

OUTFLOW AND LARGER IMPORTS.  
BOEKER

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** BALANCE OF PAYMENTS POLICIES, ECONOMIC ESTIMATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978LAPAZ05382  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780282-0619  
**Format:** TEL  
**From:** LA PAZ  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780780/aaaacpet.tel  
**Line Count:** 204  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** bb83e378-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 05 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2071232  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** BOLIVIA'S BALANCE OF PAYMENTS OUTLOOK AT MID-YEAR  
**TAGS:** EGEN, EFIN, BL  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odhc://SAS/SAS.dbo.SAS\_Docs/bb83e378-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014